B. Wireless

While the wireless interests of Bell Atlantic and GTE are largely complementary, there are a small number of instances in which their interests overlap. In particular, Bell Atlantic and GTE have overlapping cellular properties in four markets: Greenville, South Carolina; El Paso, Texas; Anderson, South Carolina; and Las Cruces, New Mexico. Under the Commission's current rules, 47 C.F.R. § 22.942, a single company is prohibited from owning interests in overlapping cellular properties. Accordingly, one of those properties in each market will be divested. In addition, GTE and Bell Atlantic hold attributable interests in overlapping broadband PCS and cellular spectrum in eight PCS MTA markets that, when combined, will exceed the Commission's current spectrum cap (47 C.F.R. § 20.6): Tampa, Miami, New Orleans, Houston, San Antonio, Honolulu, Chicago, and Richmond. In these markets, Bell Atlantic and GTE will reduce their interests to comply with any spectrum caps in effect at the time of closing (through divestiture or disaggregation) or obtain a waiver.[32]

In several additional markets, the merged company will, by virtue of combinations of cellular and PCS licenses that are permitted under the current caps, have an increased total of wireless spectrum. That increase is not anticompetitive in light of the other participants in these vigorously competitive markets, which include at least one facilities-based cellular provider and several PCS providers who have been steadily bringing prices down, making full-bore

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[32] See 47 C.F.R. § 24.714; Geographic Partitioning and Spectrum Disaggregation by Commercial Mobile Radio Services Licensee, 11 F.C.C.R. 21831, 21833-35 (1996). If that process is not complete by the time of the license transfer, applicants request that the transfer be approved subject to their coming into compliance with the spectrum caps within the time allowed under 47 C.F.R. § 20.6(e). The Commission has previously approved transfers subject to such conditions. See Bell Atlantic Mobile-NYNEX Mobile, 10 F.C.C.R. 13368 (1995); GTE-Contel, 6 F.C.C.R. 1003 (1991).

competition incumbent on the merged company.[33] Indeed, the fact that the resulting spectrum levels are below the Commission's spectrum caps is enough to dismiss any competitive concerns, for those caps (which, if anything, are too low) have been set based on competitive and other policy considerations.[34]

CONCLUSION

The merger of Bell Atlantic and GTE is powerfully pro-competitive. It creates a company that is uniquely positioned to add competition across virtually the whole range of current and emerging telecommunications markets — in local-service markets dominated by other RBOCs, in bundled-service markets, in Internet and advanced-data markets, in long-distance and wireless markets. The Commission should find the merger in the public interest to speed the introduction of such competition, and should grant the requested transfers of control.

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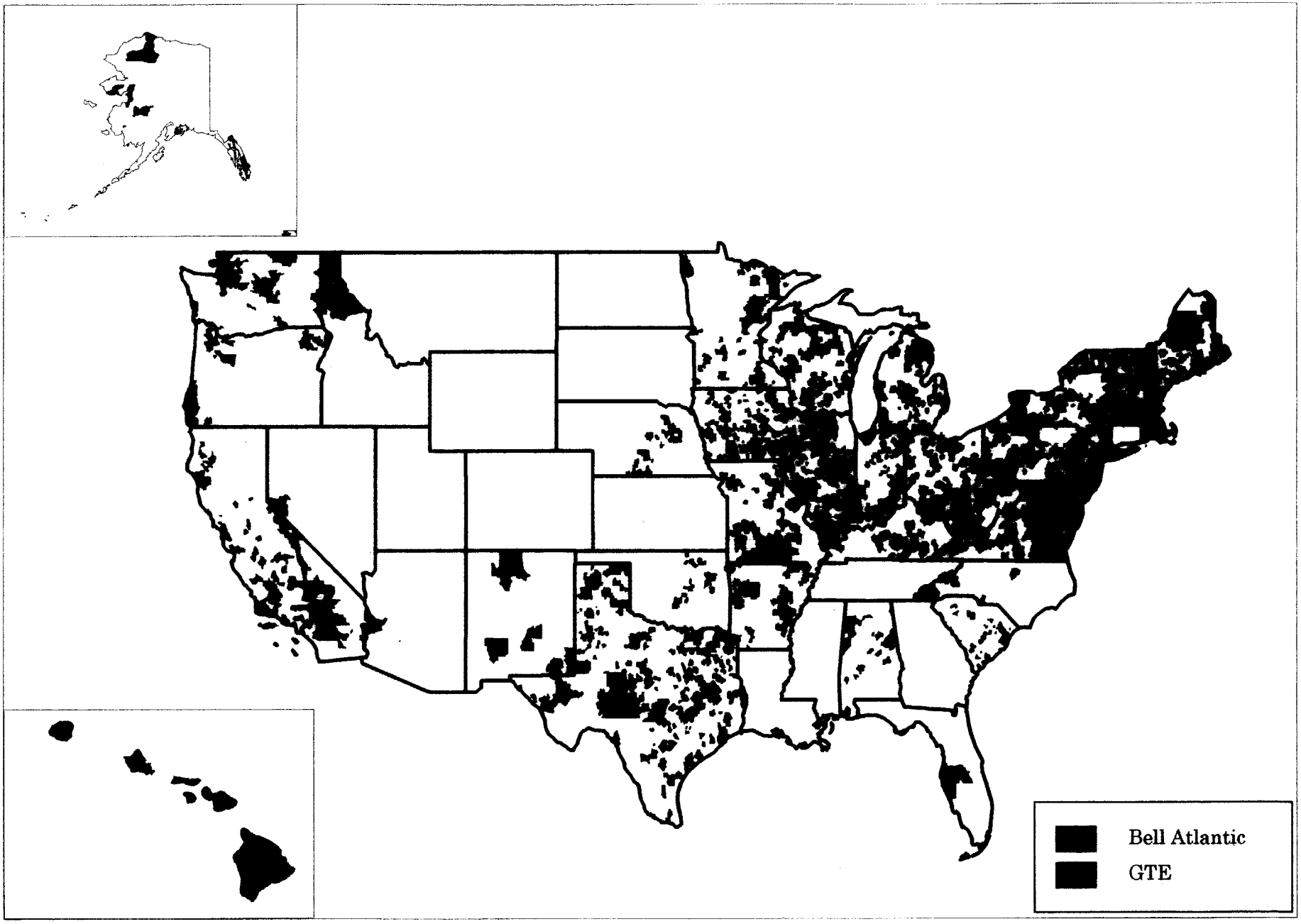
[33] A table listing several of the competitors in each area where the interests of the combined company would exceed the existing spectrum caps, or where the merger would produce an increase in total wireless spectrum, is attached as Exhibit 4. The table includes only cellular, broadband PCS and ESMR, and does not include the host of additional spectrum now available that the Commission itself has recognized can be put to competing uses.

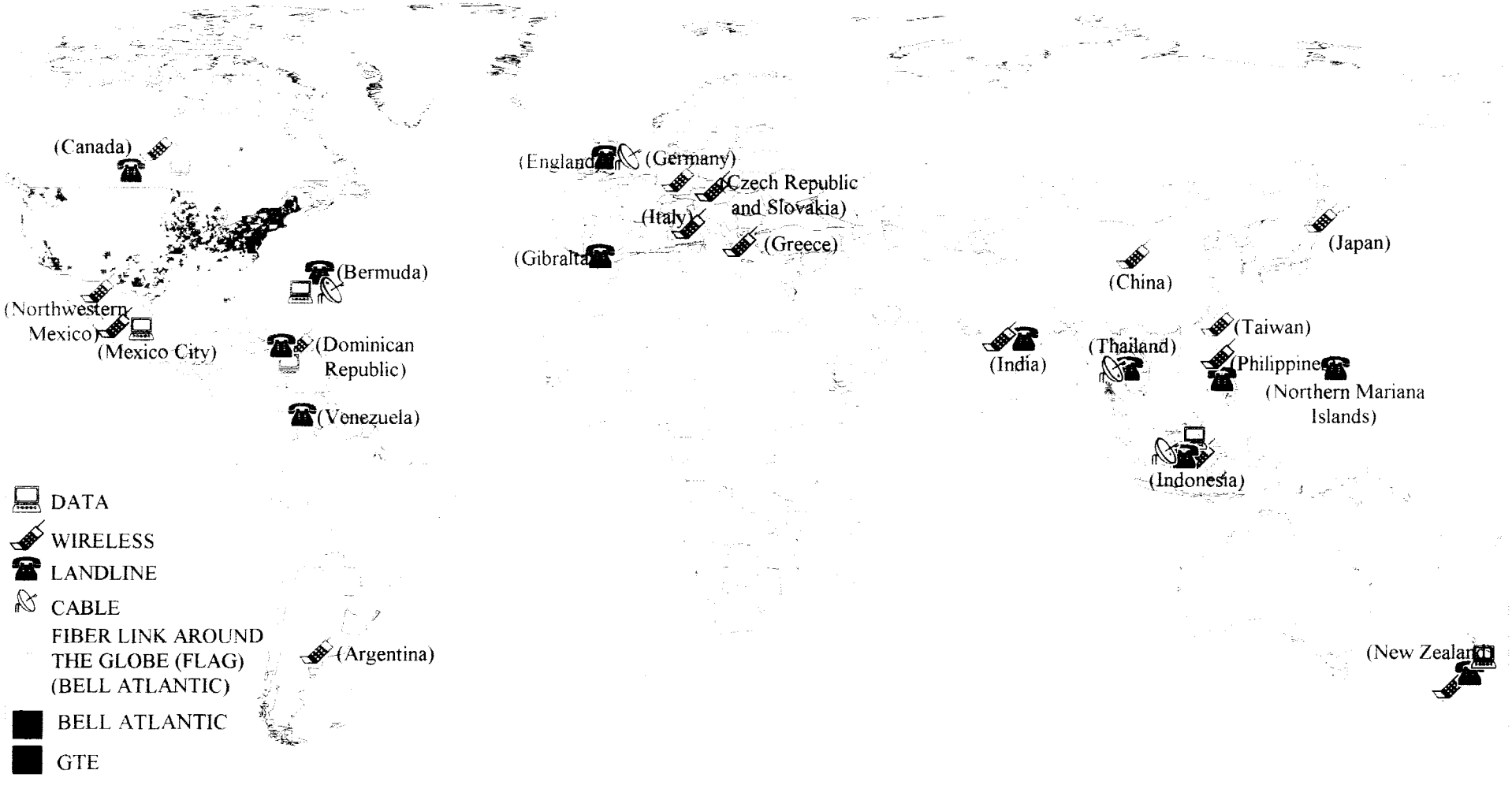
[34] See Amendment of Parts 20 and 24 of the Commission Rules, 11 F.C.C.R. 7824, ¶ 95 (1996) ("We adopted the 45 MHz CMRS spectrum cap . . . 'to discourage anti-competitive behavior while at the same time maintaining incentives for innovation and efficiency.'").

Bell Atlantic and GTE Local Service Areas



2

Bell Atlantic and GTE
Worldwide Assets



Sources: Includes minority interest over 5 percent, Bell Atlantic internal information, J. Barnicle, GTE Hawaiian Telephone Co. Inc. - Short Term Ratings, Duff & Phelps Credit Rating Co., Rpt. No. 1625822, June 5, 1995, at 2.; GTE Corp. - History & Debt, Moody's Investor's Service, Rpt. No. 3246009, March 28, 1998, at 16.; Flag Telecom, The Cable - Cable Route, http://www.flag.bm/cable_route.htm

Bell Atlantic/GTE Domestic Wireless

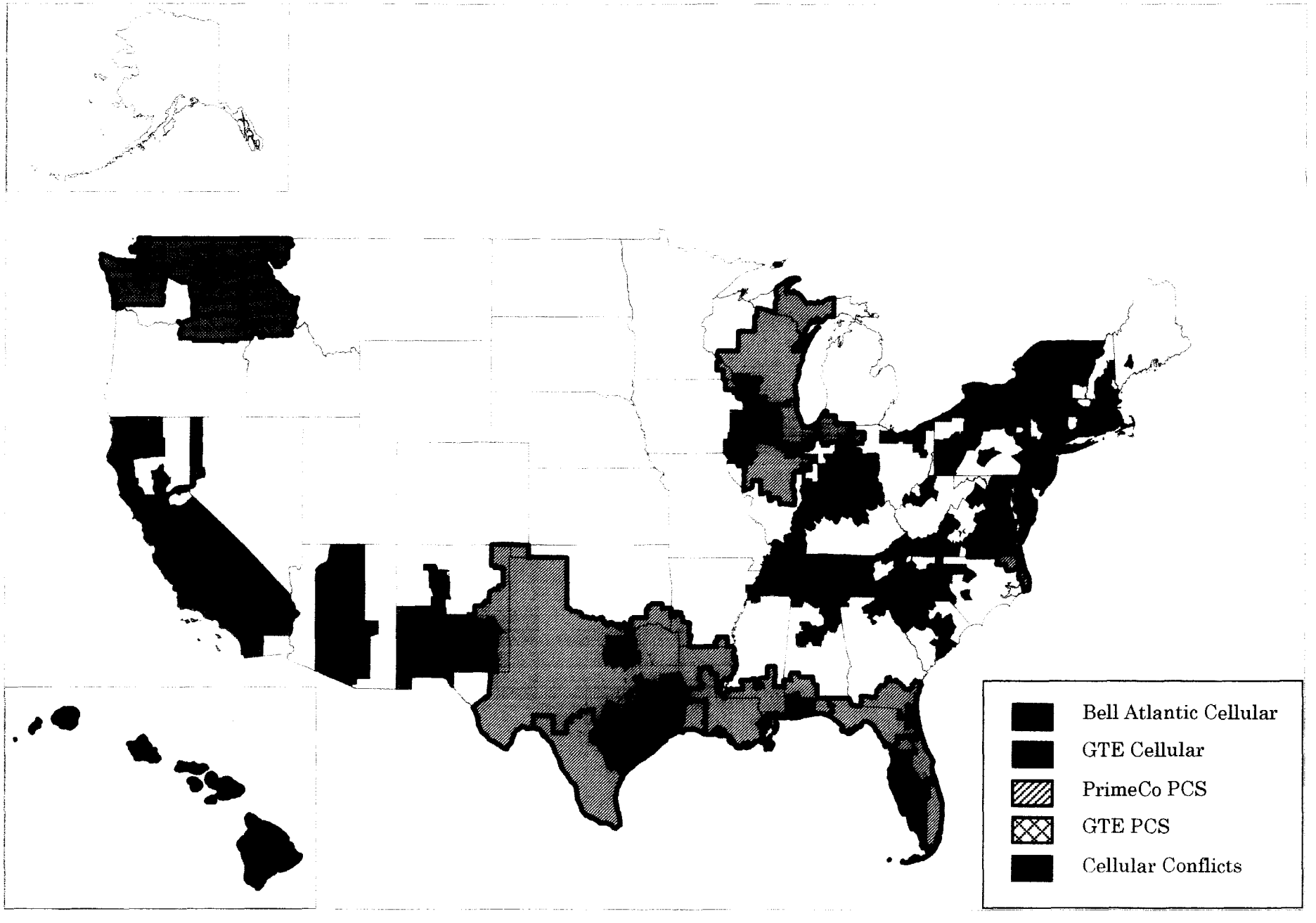


Exhibit 4

TABLE OF SELECTED WIRELESS COMPETITORS

PCS Market – Tampa-St. Petersburg-Orlando MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Tampa-St. Petersburg	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Telecorp Holding	Nextel
Lakeland-Winter Haven	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Eldorado Comm.	Nextel
Sarasota	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Fortunet	Nextel
Bradenton	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Fortunet	Nextel
Florida 2 – Glades (B1)	Wireless One	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Telecorp Holding	Nextel
Florida 3 – Hardee	Wireless One	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Telecorp Holding/Aer ForceComm.	Nextel
Florida 4 – Citrus (B1)	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	BellSouth	Telecorp Holding	Nextel

PCS Market – Miami-Fort Lauderdale MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Fort Myers	Wireless One	GTE	Aerial	PrimeCo	GWI PCS	BellSouth	BellSouth	Wireless One	Nextel
Florida 1 – Collier (B1)	Wireless One	GTE	Aerial	PrimeCo	GWI PCS	Alltel/ BellSouth	BellSouth	Wireless One	Nextel
Florida 2 – Glades (B1)	Wireless One	GTE	Aerial	PrimeCo	GWI PCS	BellSouth	BellSouth	Wireless One	Nextel
Florida 3 – Hardee	Wireless One	GTE	Aerial	PrimeCo	GWI PCS	BellSouth	BellSouth	Wireless One	Nextel
Florida 11 – Monroe (B2)	Wireless One	GTE	Sprint PCS	PrimeCo	GWI PCS	AT&T	Omnipoint	Omnipoint	Nextel

PCS Market – New Orleans-Baton Rouge MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Mobile, AL	BellSouth	GTE	Sprint PCS	PrimeCo	Mobile Tri-States	Alltel	AT&T	Mercury	Nextel
Pensacola, FL	Vanguard	GTE	Sprint PCS	PrimeCo	Mobile Tri-States	Alltel	BellSouth	Mercury	Nextel

Exhibit 4

TABLE OF SELECTED WIRELESS COMPETITORS

PCS Market – Houston MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Houston	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	AT&T	Telecorp Holding	Nextel
Beaumont-Port Arthur	Centennial	GTE	Aerial	PrimeCo	Meretel	SprintCom	AT&T	Telecorp Holding	Nextel
Galveston	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	AT&T	Telecorp Holding	Nextel
Bryan-College Station	AT&T	GTE	Aerial	PrimeCo	NextWave	AT&T	SprintCom	PCSouth	Nextel
Victoria	US Cellular	GTE	Aerial	PrimeCo	Integrated Comm.	SprintCom	AT&T	Americall Int'l.	Nextel
Texas 10 – Navarro (B3)	AT&T	GTE	Aerial	PrimeCo	NextWave	SprintCom	AT&T	Telecorp Holding	Nextel
Texas 11 – Cherokee (B1)	A-1 Cellular	GTE	Aerial	PrimeCo	Meretel	SprintCom	AT&T	Telecorp Holding/ Poka Lambro	Nextel
Texas 16 – Burleson	Dobson	GTE	Aerial	PrimeCo	Integrated Comm./ NextWave	SprintCom	AT&T	Americall Intl/ PCSouth/ Telecorp Hldg.	Nextel
Texas 17 – Newton	AT&T	GTE	Aerial	PrimeCo	NextWave/ Meretel	SprintCom	AT&T	Telecorp Holding/ Poka Lambro	Nextel
Texas 20 – Wilson (B2)	US Cellular	La Ward*	Aerial	PrimeCo	Integrated Comm.	SprintCom	AT&T	Americall Int'l.	Nextel
Texas 21 – Chambers	Alee	GTE	Aerial	PrimeCo	NextWave	SprintCom	AT&T	Telecorp Holding	Nextel

PCS Market – San Antonio MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
San Antonio	AT&T	SBC**	Sprint PCS	PrimeCo	NextWave	Western Wireless	AT&T	Omnipoint	Nextel
Texas 16 – Burleson	Dobson	GTE	Sprint PCS	PrimeCo	NextWave	Western Wireless	AT&T	Omnipoint	Nextel
Texas 20 – Wilson (B2)	US Cellular	La Ward*	Sprint PCS	PrimeCo	NextWave/ Americall Int'l	Western Wireless	AT&T	Omnipoint/ NextWave	Nextel

PCS Market – Dallas-Fort Worth MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Dallas-Fort Worth	AT&T	SBC*	PrimeCo	Sprint PCS	Pocket	AT&T	AT&T	NextWave	Nextel
Austin	AT&T	GTE	PrimeCo	Sprint PCS	NextWave	Western Wireless	AT&T	Poka Lambro	Nextel
Sherman-Denison	AT&T	SBC*	PrimeCo	Sprint PCS	Western Wireless	Alltel	AT&T	OnQue Comm.	Nextel
Texas 10 – Navarro (B3)	A-1 Cellular	GTE	PrimeCo	Sprint PCS	Pocket	AT&T	AT&T	NextWave	Nextel
Texas 11 – Cherokee (B1)	AT&T	GTE	PrimeCo/ Texas Utility	Sprint PCS	Pocket	BellSouth	AT&T	Mercury	Nextel
Texas 16 – Burleson	Dobson	GTE	PrimeCo	Sprint PCS	NextWave	Western Wireless	AT&T	Poka Lambro	Nextel

*minority owned by GTE (unattributable interest)
**minority owned by GTE

Exhibit 4

TABLE OF SELECTED WIRELESS COMPETITORS

PCS Market – Jacksonville MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Jacksonville	AT&T	BellSouth*	Powertel	PrimeCo	NextWave	SprintCom	Alltel	Southern Wireless	Nextel

PCS Market – Milwaukee MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Wisconsin 8 Vernon	US Cellular	Century*	Sprint PCS	PrimeCo	Wireless PCS	AT&T/ MVI Corp.	NextWave/ PCPCS Corp.	PCS Wisconsin/ Minnesota PCS	Nextel

*minority owned by GTE (unattributable interest)

Exhibit 4

TABLE OF SELECTED WIRELESS COMPETITORS

PCS Market – Chicago MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Fort Wayne, IN	Centennial	GTE	AT&T	PrimeCo	Comm. Vent.	SprintCom	N/A	Omnipoint	Nextel
Rockford	US Cellular	GTE	AT&T	PrimeCo	Pocket/ Comm. Vent.	SprintCom	McLeod	Northcoast Oper./ Omnipoint	Nextel
Illinois 1 – Jo Daviess	US Cellular	GTE	AT&T	PrimeCo	Pocket/ Comm. Vent.	SprintCom	McLeod	Northcoast Oper./ Omnipoint	Nextel
Illinois 2 – Bureau (B1)	SBC	GTE	AT&T	PrimeCo	Pocket	SprintCom	SprintCom	BRK	Nextel
Illinois 3 – Mercer	US Cellular	Alltel*	AT&T	PrimeCo	R&S PCS/ Pocket	SprintCom	McLeod	Omnipoint/ BRK	Nextel
Indiana 1 – Newton (B1)	Centennial	GTE	AT&T	PrimeCo	Pocket/ 21st Century	SprintCom	SprintCom/ AT&T	NextWave/ Omnipoint	Nextel
Indiana 3 – Huntington	Centennial	GTE	AT&T	PrimeCo	Comm Vent.	SprintCom	N/A	Omnipoint	Nextel

PCS Market – Richmond-Norfolk MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F	ESMR
Norfolk-Virginia Beach-Portsmouth	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Omnipoint	Nextel
Richmond	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Urban Comm.	Nextel
Newport News-Hampton	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Omnipoint	Nextel
Petersburg-Colonial Heights	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Urban Comm.	Nextel
Virginia 7 – Buckingham (B1)	US Cellular	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Urban Comm.	Nextel
Virginia 8 – Amelia	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Urban Comm.	Nextel
Virginia 9 – Greensville	Alltel	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Omnipoint/ Urban Comm.	Nextel
Virginia 11 – Madison (B1)	SBC	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Urban Comm	Nextel
Virginia 12 – Caroline (B1)	SBC	GTE	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Omnipoint/ Urban Comm.	Nextel
Virginia 12 – Caroline (B2)	SBC	Bell Atlantic**	AT&T	PrimeCo	NextWave	SprintCom	Western Wireless	Omnipoint/ Urban Comm.	Nextel

PCS Market – Honolulu MTA

MSA/RSA	Cellular-A	Cellular-B	PCS-A	PCS-B	PCS-C	PCS-D	PCS-E	PCS-F
Honolulu	BellSouth	GTE	Western Wireless	PrimeCo	Pocket	AT&T	SprintCom	Magnacom
Hawaii 1 – Kauai	Ameritech	GTE	Western Wireless	PrimeCo	CH PCS	AT&T	SprintCom	Magnacom
Hawaii 2 – Maui	AT&T	GTE	Western Wireless	PrimeCo	CH PCS	AT&T	SprintCom	Magnacom
Hawaii 3 – Hawaii	US Cellular	GTE	Western Wireless	PrimeCo	Pocket	AT&T	SprintCom	Magnacom

*minority owned by GTE (unattributable interest)
**minority owned by GTE

Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
GTE CORPORATION,	)	
	)	
Transferor,	)	File No.
	)	
and	)	
	)	
BELL ATLANTIC CORPORATION,	)	
	)	
Transferee.	)	
	)	
For Consent to Transfer of Control	)	

DECLARATION BY THOMAS W. HAZLETT, Ph.D.

INTRODUCTION

1) My name is Thomas W. Hazlett, and I am an economist specializing in telecommunications policy. I currently serve as Professor of Agricultural and Resource Economics at the University of California, Davis, where I am Director of the Program in Telecommunications Policy. I am also, during the 1998-99 academic year, a Resident Scholar at the American Enterprise Institute in Washington, D.C. I have written many papers for academic and popular publications on the topic of telecommunications regulation, and have previously served as Chief Economist of the Federal Communications Commission (1991-92). My c.v. is attached to this Affidavit as Appendix 1. I have been asked by Bell Atlantic to analyze the competitive implications of its proposed merger with GTE, and herein undertake to do so.

2) The U.S. telecommunications market today exhibits striking trends towards both consolidation and fragmentation. These distinct yet contemporaneous cross currents must be clearly understood for purposes of antitrust analysis, an analysis which seeks to separate pro-competitive from anti-competitive combinations. The seeming irony is a

product of the fact that economic integration – either vertically or horizontally – can yield substantial efficiencies for telecommunications suppliers, and these productive gains can better equip new entrants to challenge dominant incumbents. As *The Economist* summarized its recent article on the subject: "Big established telecoms companies are under pressure as never before from new technology, aggressive regulators and entrepreneurial rivals. In response, they are trying to become even bigger, but also nimbler."[1] While large-scale enterprise is sometimes characterized as inherently monopolistic, such a view is fundamentally anti-consumer. From the consumer's perspective, what matters is the ability to buy high quality service at a low price. Supplier size matters only to the extent that it affects price and quality. While monopolization can raise prices and so lower consumer welfare, so too can rules that artificially limit economies of scale or scope.

A TEST OF THE MONOPOLIZATION THESIS

3) One valuable and relatively objective indicator of a merger's likely impact on market competition is provided by an examination of stock prices. In securities markets returns are realized by those investors who most accurately process information affecting corporate earnings, including the impact of important events such as mergers, in a timely fashion.[2] This allows an observer to discern the impact of various public announcements on future economic conditions by focusing on contemporaneous changes in share prices.

4) Such an approach is well suited to the policy consideration now undertaken by the FCC. The public interest determination is inherently forward looking. As the Commission has noted: "In evaluating the potential impact of the proposed merger on telecommunications markets... we will necessarily be making predictions of future market conditions and the likelihood of success of individual competitors."[3] The Commission goes on to cite the Supreme Court's ruling in *FCC v. RCA*: "In the nature of things, the possible benefits of competition do not lend themselves to detailed forecast..."[4] When the difficulty in crafting forecasts of future market conditions is combined with the key importance of such forecasts for public policy analysis, the advantage of using financial market data to make reasonable inferences about expected market effects becomes apparent. Stock prices, while sometimes volatile, offer the best reflection of the information observed by the public and knowledgeable investors. The

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[1] "Telecoms: So the Elephants Danced," *The Economist* (August 1, 1998): www.economist.com/archive/b...s/1998_out/01:08:1998/ecn.009.html.

[2] See G. Schwert, "Using Financial Data to Measure Effects of Regulation," *24 Journal of Law & Economics* (April 1981), 121-58; B. Eckbo, "Horizontal Mergers, Collusion, and Stockholder Wealth," *11 Journal of Financial Economics* (1983), 241-73.

[3] *Nynex Corp. & Bell Atlantic Corp.*, Memorandum Opinion & Order, 12 FCC Rcd 19985 (1997).

[4] *FCC v. RCA Communications Inc.*, 346 U.S. 86, 97 (1953).

fact that it would be easy for investors to reap above-competitive profits were prices set according to biased or systematically inaccurate forecasts of future corporate earnings constrains market prices to incorporate the most reliable information generally available.

5) Where a merger results in less competition between firms in a given industry, this prospect will increase profits anticipated by both the merging firms and their rivals – an effect which should be signaled by positive returns to shareholders at the time news of the merger hits the market. However, should the merger be anticipated to result in a more robust rivalry between firms in the industry (say, because of the creation of scale economies in the merged firm), then competitors of the merging firms will experience negative returns. By examining the stock market returns of the merger's competitors, we should thus be able to learn something important about the anticipated competitive effects of the merger.[5] In this analysis, I examine the abnormal market returns (subtracting the S&P 500 returns) for those firms which the FCC has identified as key Bell Atlantic competitors – Sprint, AT&T, and WorldCom – plus SBC, over 1-day and 3-day event windows surrounding the announcement of the Bell Atlantic-GTE merger on July 28, 1998.[6]

6) As seen in Table 1, the stock market reactions by the four major BA/GTE competitors to the July 28, 1998 merger announcement reveals little evidence that a decrease in competition was the likely result of the merger. All competitors exhibit negative unadjusted returns over all windows. When adjusted by the market returns over this period, all four firms again exhibit negative same-day returns, as well as negative returns for the three-day windows. This serves as strong evidence that rational investors do not believe that the Bell Atlantic merger with GTE will increase prices for telecommunications customers. The reverse interpretation – that the merger is seen as increasing competitive rivalry – is the most reasonable conclusion.

7) To gauge how other recent merger announcements have fared in a similar analysis, I have also examined returns for several major telecommunications competitors surrounding the mergers announced by AT&T/TCI (June 24, 1998) and by

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[5] The stock price reactions of the merging firms may rise as per the merger, but the reasons are unclear: such could be caused either by expectations of higher product prices (monopolization) or due to anticipated efficiencies which will increase market share while lowering product prices (competition). Competitive (non-merging) firms in the industry may also realize positive returns due to the "in play" effect, an explanation which is an alternative to the monopoly thesis. Hence, positive returns exhibited by competitor stocks are necessary if insufficient evidence implying anti-competitive consequence for the merger.

[6] July 28 = Day 0. The 1 day window reveals returns for just Day 0; the 3 day window reveals returns for (-1 to +1). Regression results were also examined. Abnormal Returns for the j^{th} stock at time t (AR_{jt}) were estimated in the following market model:
$AR_{jt} = R_{jt} - (\alpha_j + \beta_j M_t)$, where the parameters α_j and β_j were estimated from daily stock market returns between September 9, 1997 and September 9, 1998, and M_t = S&P 500 returns for day t. These results were very similar to the method used here.

SBC/Ameritech (May 11, 1998). The AT&T/TCI announcement is associated with large negative returns for other major firms in the industry (see Table 2), particularly U.S. West (included because it is a potential competitor to TCI in many markets in the Western United States). These results are strongly supportive of the view expressed by many at the FCC and elsewhere that the merger would enhance competition,[7] and tend to support the conclusion that the similar pattern observed at the time of the Bell Atlantic-GTE merger announcement evidenced expectations of increasing competitive rivalry. The SBC/Ameritech merger announcement is greeted with more mixed results (see Table 3). Still, three of five major competitors experience negative returns for both the one-day and three-day windows.

EXPLAINING CONSOLIDATION EFFICIENCY

8) In the context of the current U.S. telecommunications market, nationally integrated firms are now emerging which promise to both utilize scale economies and to invigorate competitive forces. Both ends of the bargain – productive efficiencies and enhanced market rivalry – will reliably increase consumer welfare, delivering substantial benefits to the U.S. economy as a whole. One clear example of this is now occurring in wireless telephony. Since the licensing of cellular telephone service in 1984-89, hundreds of mergers and acquisitions have reduced the number of service providers. At the same time, the introduction of licenses for personal communications services (PCS) in the 1995-98 period has led (through aggregation allowed in the FCC auctions which assigned PCS licenses) to the entry of a relatively small number of large-scale national and regional operators. Industry consolidation has not been associated with increasing prices, or service reductions, for consumers. Quite the contrary: Efficient aggregation has produced economies which have fueled competitive rivalry. The result has been substantial reductions in the cost of mobile telephone usage and substantial increases in the quality of service.

9) The FCC's Third Annual CMRS Competition Report makes this point in the clearest terms.[8] It first notes that both within cellular markets, and with the advent of PCS entry

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[7] "Will AT&T's acquisition of Tele-Communications, Inc. bring consumers better and cheaper telephone and cable service? Perhaps surprisingly, the answer is yes, say telecommunications consultants and analysts... The deal already received an implied blessing from William Kennard, chairman of the Federal Communications Commission." James Flanigan and Karen Kaplan, "AT&T Deal Could Have Nice Ring for Consumers," *The Seattle Times* (June 25, 1998), C1.

[8] In the Matter of: Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Radio Services, FCC 98-91 (Adopted May 14, 1998; Released June 11, 1998).

into the marketplace, service prices to customers have been markedly falling.[9] This market outcome, which the Commission ties explicitly to enhanced competitiveness, has occurred not only despite – but in large measure because of – industry consolidation. This is seen as a natural economic process delivering benefits to both producers and consumers. In the Commission's words:

> As many industries mature, a process of consolidation often occurs. This process can be observed in various CMRS services as licensees acquire new licenses to gain the efficiencies of larger footprints and the marketing possibilities of multiple product offerings. This process is most evident in the paging/messaging industry. Furthermore, it is possible that there will be a period of increased consolidation activity among broadband PCS licensees as competitive forces act upon the mobile telephone industry. At this point in time, consolidation appears to be part of the process of efficiently re-allocating resources and developing efficient and competitive markets because the consolidation has been largely across markets and not within markets. Consolidation has not significantly reduced the number of providers of a given service within a geographic market.[10]

10) In a closely related sector, some local telephone exchange providers are now seeking to combine forces *across* markets to better compete *within* markets. In the proposed merger between Bell Atlantic and GTE, two large regional operators seek to extend their scale of operations not by eliminating head-to-head rivalry but by combining operations which have essentially no current service territory overlap. The result of such a merger would be a substantially more efficient enterprise, one possessing the ability to tap into operating and marketing economies available to firms with national and international presence. The pro-competitive aspects of this merger can be inferred from:

a) trends in telecommunications markets, including the availability of economies of scale and scope;
b) synergies evident in the Bell Atlantic-GTE consolidation;
c) the presence of a strong set of Bell Atlantic-GTE competitors in the post-merger firms' quest for national telecommunications market share;
d) and by stock market reactions to the BA-GTE merger announcement which clearly signal pro-competitive expectations in the capital markets.

TRENDS IN THE TELECOMMUNICATIONS SECTOR

11) In the 1984 divestiture of AT&T, various line-of-business restrictions were placed upon the local exchange companies, which were themselves split off from the long distance and equipment manufacturing components of the old Ma Bell. This approach has

[9] Ibid., at 3.
[10] Ibid., at 5 (footnote omitted).

likely achieved some successes and some failures; debate is still robust on the divestiture's ultimate place in history. But one certain aspect of the arrangement then imposed upon the telecommunications marketplace is that the separation of potentially complementary businesses was a direct cost of the policy. As the former assistant attorney general for antitrust, William Baxter, described it:

> The decree implicitly made a wager that the regulatory distortions of those portions of the economy, which could have been workably competitive, yielded social losses in excess of the magnitude of economies of scope that would be sacrificed by this approach. It was a wager, a guess. It would be absurd to pretend it was made on the basis of detailed econometric data. It was not; we did not have the data. Of course, all other courses from that point were also guesses. Clear proof was not about to become available any time soon. It was a judgment call, and I guess, in some senses, I do not yet know. Maybe we will never know whether it was right or wrong.[11]

It was seen that the presumed trade-off in favor of separation would not only be informed by market developments over time, but would likely shift as new forms of competition established themselves in the telecommunications sector.

12) One factor that has been made clearer in the fourteen years of market "experimentation" following divestiture is that nationally integrated firms exhibit certain productive efficiencies in providing telephone service to customers. This is now evident from the experience in wireless telephone markets, as noted by the FCC above, and in the case of long distance. Unlike the regulation-imposed partitioning in the local exchange market, long distance telephone firms are free to operate on a local, regional, or national basis. In fact, such firms routinely choose the size of the territory they wish to serve. Now with some 14 years of post-divestiture competition in long distance, we are able to observe the degree to which nationally integrated firms dominate the marketplace. The major long distance firms are all national in scope. The most successful firms in challenging the erstwhile AT&T monopoly for market share in long distance have been, and continue to be, nationally integrated competitors such as MCI/WorldCom and Sprint.[12] This survivorship test strongly indicates that firms serving national-sized markets (or larger) enjoy crucial productive advantages relative to other firms.

13) Apart from the scale advantages yielded by national integration, additional gains are being realized by firms offering expanded service menus. On the supply side, joint production of multiple services can exploit various economies of scope, utilizing a given set of common costs to produce additional output. Digitization is a technical phenomenon that is widely seen as contributing both to the convergence of

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[11] As quoted in: Gerald W. Brock, Telecommunications Policy for the Information Age (Cambridge, MA: Harvard University Press, 1994), at 172.

[12] The explosive performance of WorldCom in recent years also suggests that even firms which specialize in particular market segments – say, high volume business traffic – succeed by operating across a broad span of local markets (namely, nationwide).

telecommunications delivery modes and to large increases in scope economies. On the demand side, customer choice is enhanced when buyers are given an opportunity to select not only from an array of individual products, but from alternative packages of services. Such trends can be witnessed in a variety of retail and wholesale markets; "suites" increasingly dominate PC software applications, for instance, as individual word processing and spread sheet programs have given way to the increased functionality of multitask software packages. With the rapid pace of change in telecommunications markets, simple transactional efficiencies also yield powerful incentives to bundle products: consumers often prefer 'one-stop shopping,' particularly when uncertain about the delivery quality of new services. In such situations, the ability to deal with a trusted brand name supplier may most efficiently remedy the consumer's problem in obtaining reliable product information. Such trends have again been identified by the FCC in its evaluation of telecommunications markets. For instance, in the wireless sector it has explained:

> The convergence of product and service offerings continues to be a driving force in the wireless industry. Markets are defined by services, not legal or regulatory terms. One of the most easily recognizable results of this process is the increased use of "bundles" (i.e., multiple services from the same device) as a marketing tool.[13]

Economies of scale and scope naturally drive leading firms in the telecommunications sector to pursue both vertical integration and across-market consolidation strategies. This effort is, in many ways, a rationalization process, restructuring an industry partitioned along regulatory, rather than market, dictates. Rather than protecting monopoly turf, the consolidation of major service providers can facilitate entry and intensify competition, lowering prices for consumers. This is why leading analysts specifically see the consolidation of Bell Atlantic and GTE as a push for efficiency.[14]

MERGER SYNERGIES

14) Productive efficiencies from combining the operations of Bell Atlantic and GTE are likely to be substantial according to estimates by outside analysts as well as the companies themselves. According to Bear Stearns:

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[13] FCC, Third Annual CMRS Competition Report, op cit., at 4-5.

[14] As *The Economist* writes:

> The talk in the telecoms industry is of all these markets merging, with room for only four or five "universal players" – big integrated companies that offer all services. In that case, the Bells that stick to their old fiefdoms may be left behind. Hence, the view that they need to go on the offensive – and the possibility that the GTE/Bell Atlantic merger might just have been the final push needed to get all the Baby Bells up off their backsides. ("Telecoms," op cit.)

> Cost savings come from combining telephone, wireless, publishing, long distance (LD), data and corporate activities. Efficiencies are gained in areas such as marketing (e.g., product management, sales, and advertising), customer operations, general and administrative (e.g., accounting, external relations, human resources, information technology, and legal), and corporate management and planning. Notably, both companies have experience in harvesting synergies. GTE successfully merged with Contel in the early 1990s, and Bell Atlantic is on plan in its combination with Nynex.[15]

15) Economies of scale are increasingly apparent in the developing global competition for telecommunications services. As new communications services penetrate consumer markets and as advanced information technologies spread deeper within various corporate structures, demand increases for reliability and functionality. Firms which deliver expanded, diverse packages of high quality services will naturally excel; conversely, firms which anticipate garnering large numbers of customers can better justify substantial outlays in research and development costs to create better networks for customers. While the forces favoring large scale enterprise are not ubiquitous, and entry by large numbers of small firms into various niches of the telecommunications industry continues in a parallel fashion, it is unmistakable that scale economies are an important source of efficiency in broad stretches of the sector. One oft-noted element of this market phenomenon is seen in the importance of brand name capital. Much of the competitive battle between network providers is today pitched at the level of creating a nationally recognized brand name that yields not only consumer awareness but conveys a reputation for quality products, ease of use, reasonable pricing, and system reliability. As the Bell Atlantic/GTE merger immediately endows the new enterprise with national scope, efficiencies derived from using national advertising to build and hold brand name acceptance become more readily available.

16) Product innovation can also be improved by integration of facilities in larger, more effective units. The positive relationship between size and dynamic efficiency rests on the elementary calculation that new product development entails certain fixed investments that are less risky where costs may be amortized across a larger number of sales. Such declining unit cost functions are likely to be of relatively greater importance in a network industry such as telecommunications. Achieving the 'critical mass' necessary for new product acceptance often depends in crucial part on the participation of a sufficient number of consumers interacting (i.e., communicating) on or via the new service in question. Allowing Bell Atlantic and GTE to combine yields transactional efficiencies in the introduction of new services, and additionally increases the incentives to innovate by holding out the prospect of more attractive returns due both to lower unit costs and the enhanced ability to quickly capture market share for popular new products.

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[15] Bear Stearns, "Telecommunications Services: Opinions, News, & Latest Results" (August 1998), at 138.

17) The product innovation logic has both horizontal and vertical aspects. Some gains may be realized by a merger of Bell Atlantic and GTE by simply capturing economies of scale, particularly national or international (geographic) scope. But vertical efficiencies are also apparent, and these gains accrue to improved coordination between the various levels of service provision in the telecommunications sector. The two firms exhibit strengths in distinctly different product markets, and a combination of the two would likely improve both. As one analyst notes: "Moody's believes that the opportunity to cross sell GTE's growing portfolio of data products, the fastest growing telecommunications service offering, to Bell Atlantic's attractive customer base creates significant incremental earnings potential for the new enterprise."[16] Indeed, the combined enterprise will face strong incentives to invest in data services, including new internet backbone, because such services tend to be highly complementary to its core network services.[17]

18) Closely related to the above advantages of integration is product bundling, or "one-stop shopping." Bundling is a natural extension of communications services in an era in which increased functionality is demanded by customers. Moreover, it is a phenomenon driven for some years by technological convergence and the reduction of barriers to entry. Where firms with complementary service menus such as Bell Atlantic and GTE combine to produce a wider array of choices for customers, the resulting firm is likely to be a more formidable competitor -- particularly in the evolving "small numbers" competition seen in national and global telecommunications markets.

THE POST-MERGER TELECOMMUNICATIONS MARKET

19) The existing GTE and Bell Atlantic service areas do not exhibit any substantial overlap; direct competition is only a potentiality.[18] Yet, if consolidation allows the newly-formed company – through synergies and advantages discussed above – to better attack adjacent markets, then the resulting market will exhibit a greater degree of

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[16] Dow Jones Newswires, "GTE/Bell Atlantic/Moody's" (July 28, 1998).

[17] "Managements Also See Opportunities for Vertical Integration. In particular, the new Bell Atlantic can leverage the GTE Internetworking unit (includes BBN Corp., which was acquired in 1997, and GTE's existing Internet services business), as well as GTE's nationwide LD network. Both of these assets are critical to penetrating medium and large businesses. Success in this market is a strategic imperative for Bell Atlantic." Bear Stearns, *Telecommunications Services...*, op cit., at 138.

[18] As one article notes: "[I]t's difficult to show a reduction in competition between companies that don't currently compete." John Simons, "Wave of Telecom Mergers Puts Regulators to the Test," *Wall Street Journal* (July 30, 1998), at B4.

competitiveness and, most importantly, lower prices and better products for customers. Telecommunications analysts appear to accept this view of the merger. Moody's notes:

> GTE's operations are key components in creating a telecommunications provider with the critical market presence and service offerings capabilities to compete in the rapidly consolidating telecommunications industry.[19]

20) As this analysis indicates, there is widespread expert belief that the ensuing marketplace -- featuring such well-positioned incumbents as Sprint, WorldCom/MCI, AT&T/TCI, and SBC/Ameritech -- will offer keen competitive resistance to the Bell Atlantic-GTE alliance. Conversely, the merger of Bell Atlantic and GTE enables the combined firm to itself go on the offensive, competing in new market segments against rival incumbents.

21) The simple analytics of industrial organization indicate that the biggest pro-competitive impact is typically registered with entry into a highly concentrated market. The basic proposition in financial economics, alternatively, is that benefits realized sooner are more valuable than those realized later. If the economies available to Bell Atlantic-GTE increase the probability that the post-merger company will successfully compete in providing competition in local and long distance telephone markets right now, this is clearly more valuable than holding back such competition to keep either firm "in reserve" for potential competitive entry at some later date. In attempting to create yet a new national product market in bundled local, long-distance and data communications service, the benefits attendant to a successful venture are potentially vast. Constraining such efforts on the speculation that future markets will be better served by the existence of one additional telephone company is to take an extremely risky gamble – with the consumers' chips.

CONCLUSION

22) When formulating its public interest determination in the proposed Bell Atlantic-GTE merger, the Commission will naturally attempt to identify the costs and benefits attendant to such a decision. In this mode, trade-offs may be more readily identified and weighed. On the cost side of the ledger are the consumer welfare losses associated with the elimination of head-to-head competition. Where a merger allows the remaining incumbent(s) to raise prices without the threat of entry, consumers may lose. In the extant case, there is virtually no service territory or product market where such an event

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[19] Dow Jones Newswires, "GTE/Bell Atlantic/Moody's" (July 28, 1998). See also: "Phone Mergers to Cut Rates: Analyst says telecom alliances will produce lower prices for consumers," CNNfn website (July 27, 1998; 1:51 p.m. ET): http://cnnfn.com/hotstories/deals/9807/27/wilkes_intv/index.htm.

could be identified. Even where Bell Atlantic and GTE service areas are adjacent, they typically do not directly overlap.

23) It is the issue of *potential* competition that raises questions for regulators. Were these two firms to merge, it would remove one of them as a potential entrant into the market of the other. But, of course, when one shifts from the realm of actual to potential competition, there are a great many more firms to consider as possible rivals in the service market territories of either Bell Atlantic or GTE. At a minimum, today's telecommunications market clearly features three strong, nationally-integrated long distance suppliers with designs on the one-stop shopping telecom market. Beyond AT&T/TCI, WorldCom/MCI, and Sprint, it now appears that the SBC/Ameritech alliance will provide national service. SBC has, indeed, announced plans to roll-out local/long distance offerings in all of the top 50 U.S. markets. Before even considering the competitive viability of cable telephony, internet service providers, online services, and wireless service suppliers (including cellular, PCS, fixed wireless access services, and satellite), the prospect of head-to-head competition between Bell Atlantic and GTE constitutes no better than the fifth most likely source of direct rivalry. It would involve an extreme degree of forecasting confidence to pinpoint the net benefit in deterring an efficient combination today so as to "hold back" a potential entrant running in the middle of a crowded race for possible competitive benefits sometime in the future.

24) Contrast such speculative gains against the very real and immediate benefits provided by the Bell Atlantic-GTE merger. Synergies are calculated to produce several billions of dollars in operating and financial cost savings, with marketing efficiencies delivering both better quality systems to customers and higher profits to stockholders. A key part of this combination involves tying GTE's sophisticated data/internet operations to the large retailing ability of Bell Atlantic, paving the way for an expansion of new telecommunications services, including packages of bundled products to customers searching for transactional efficiencies as well as greater functionality. This would allow the marketplace to restructure the scale and scope of telecommunications supply, replacing the imposed demarcations of an earlier era of regulation with efficiency-driven organization discovered via a process of competitive rivalry.

25) In this more dynamic environment, the post-merger firm would instantly enjoy the benefits of national scale, better to introduce and market telecommunications services to businesses and households. This competitive boost would directly threaten the market positions of other large, nationally-integrated telecommunications providers such as AT&T, SBC, Sprint and WorldCom – a fact that has not gone unnoticed either in the event study performed herein, or in the pages of *The Economist*: "[I]t is possible that real competition in local telephone markets is nearer than some have thought – one reason why so many telecoms stocks fell after the [Bell Atlantic-GTE] deal."[20] In light of the hard evidence that rational stock market investors do not anticipate an increase in market power, it is most reasonable to conclude that the merger of Bell Atlantic and GTE will lead to lower prices and enhanced services for consumers.

[20] "Telecoms," *The Economist*, op cit.